EXHIBIT E

Honorable Ramón Luis Nieves
President
Energy Affairs and Water Resources Commission
Senate of Puerto Rico
The Capitol
San Juan, Puerto Rico

Dear Mr. Senator:

Public Hearing on the Puerto Rico Electric Power Authority Operational Transformation

Reference is made to your Notice to Appear Before the Energy Affairs and Water Resources Commission regarding the above-referenced matter. My Statement to the Commission is attached hereto.

Should you require additional information regarding this matter, I remain at your disposal.

Cordially,

Lisa Donahue
Chief Restructuring Officer

Attachment

Testimony of Lisa Donahue
Energy Affairs and Water Resources Commission
October 4, 2016

Good morning, President of the Senate Eduardo Bhatia, President of the Commission Ramón Luis Nieves, and Members of the Commission. My name is Lisa Donahue, and I am the Chief Restructuring Officer of the Puerto Rico Electric Power Authority ("PREPA"). I am also a Managing Director and global leader of the Turnaround and Restructuring Practice at AlixPartners, a global business and advisory firm. Before my appointment as Chief Restructuring Officer at PREPA, I was an executive at a number of other power companies, including executive vice president and chief financial officer at Calpine Corp., an independent power producer operating in Texas, California, Canada and Mexico; chief financial officer at Atlantic Power Corp., a publicly traded power and infrastructure company; and chief restructuring officer at SemGroup, L.P., a mid-stream oil & gas, pipeline, storage and commodity trading company.

Before I begin, I would like to thank President Bhatia, President Nieves and the Members of the Commission for giving me the opportunity to update the Commission on PREPA's operational transformation and its financial restructuring. As mentioned during my last appearance before this honorable Commission, we take our responsibility to the people of Puerto Rico very seriously. In addition to my prepared testimony, I have attached a short power point presentation highlighting some of the results of our key workstreams.

Background

As the Commission will recall, PREPA was required to hire a Chief Restructuring Officer as a result of the forbearance agreements reached with certain creditors in the summer of 2014. After an extensive search process, PREPA's Governing Board hired me as the Chief Restructuring Officer.

When I arrived at PREPA in September 2014, I encountered a utility that operated far below industry standards and faced very serious liquidity and financial stresses that threatened the reliability of the electric system.

For many years, and through successive administrations, PREPA did not operate with the level of efficiency necessary to be a sustainable utility and to support Puerto Rico's economic growth. PREPA's governing board and management changed every four years as new gubernatorial administrations were elected. Long term capital planning was nearly impossible as leadership and priorities changed. Too often, decisions were made out of political priorities, rather than sound business judgment.

In addition, over the years, PREPA had incurred significant debt -- nearly $9 billion in power revenue bonds and revolving fuel lines. At the same time, PREPA's rate structure did not keep up with its costs. Although the base rate had not changed since 1989, fuel prices were at near-historic highs, creating volatility in PREPA's electricity rates. PREPA's financial situation was so dire that it was not in position to pay either its debt service or debt maturities.

My overall goal since my hiring in September 2014 has been to develop a plan to modernize PREPA's operations and improve its balance sheet while providing affordable and reliable electricity to the people of Puerto Rico. Through this transformation process, PREPA has been working to evolve into a modern utility. To date, much progress has been made, but much more work remains. PREPA's deterioration evolved over many years of neglect, and it will take many years of improvements and years of capital investment to fix it.

Status Update on Implementation of Restructuring Plan

When I arrived, the first key task was to negotiate an extension of the forbearance agreements in place at that time that would give PREPA the time to develop a comprehensive business plan. Such business plan served as the cornerstone to negotiate a long-term and sustainable settlement with the creditors that would in turn allow PREPA to invest in its outdated system and put itself on the path toward sustainability. After development and acceptance of PREPA's business plan by the creditors and then after several months of extensive negotiations, PREPA entered into a Restructuring Support Agreement with creditors holding approximately 70% of the outstanding financial debt (the "RSA"). Broadly, the RSA creates a framework for PREPA's stakeholders to share the burden of its transformation in an equitable and sustainable manner. The RSA is not just about restructuring PREPA's financial obligations – it also lays out a roadmap for PREPA's transformation into a modern utility, including (i) significant operational improvements to reduce costs to customers, (ii) a capital investment plan to update PREPA's deteriorating infrastructure, (iii) a competitive bidding process to solicit bids from third-party investors for infrastructure development, and (iv) governance reform to create an independent, experienced board. Today I would like to focus on each of these elements.

Operational Transformation

Although this has not been the focus on media attention in Puerto Rico, our primary focus at PREPA over the past two years has been to improve PREPA's operations, generate cash and obtain savings in both the short- and long-term.

Our work has targeted core business functions to improve organizational efficiency, increase revenue generation and instill a culture of safety in the workplace. With respect to support functions, the emphasis has been on improving operational efficiency,

eliminating waste, and renegotiating sourcing agreements to reduce costs. Putting all this together, by comprehensively addressing shortcomings – including accounts receivable and collections, fuel receipt process and controls, non- fuel procurement, inventory management and safety, as well as labor costs and efficiency – PREPA has begun the process to transform itself into a modern and professionally managed utility.

The operational improvements implemented by PREPA so far, and described more in detail below, have already had a significant financial impact, and show that PREPA can take actions to reduce costs, improve efficiency and apply industry standards. With our assistance, PREPA has achieved approximately $212 million in one-time cash generation savings and approximately $202 million in recurring annual savings.

T&D Network Improvements. The transmission and distribution network is in critical need of maintenance and investment. In November 2015, at the request of the PREPA Governing Board, we conducted a comprehensive review of the utility's transmission and distribution network, including its maintenance programs and operational scheduled efficiency. The study helped highlight and prioritize initiatives that would serve to limit the causes of outages related to backlog of tree trimming and other activities that would provide better service to our customers. PREPA then accelerated initiatives to improve the operations and capital spent on the T&D system, with the objective of improving the reliability of the grid. Among these, PREPA has been catching up with the "*desganche*" tree trimming to reduce the amount of distribution lines coming into contact with vegetation. An RFP is in process to engage third-party support to help accelerate the tree trimming effort. It is also expected that with the efficiencies brought on by dealing with the *deschange*, cleaning and addressing the backlog of

service orders and improving the crews productivity through better planning, PREPA should enable a shift towards performing more preventive maintenance of the aging T&D infrastructure.

Reduction of Labor Costs. While not recommending employee layoffs, labor costs have been reduced by capitalizing on organic attrition to significantly lower headcount and thus payroll costs. Since June 30, 2014, PREPA has reduced headcount, through attrition, by about 850 full time employees, generating annual payroll savings of approximately $124 million. Additionally, we began a robust program for succession planning that includes mapping of eligible retirees, detailed job descriptions, identifying experience gaps and comprehensive training in order to anticipate retirements that are expected in the next few months and years. The sustainability of reduced headcount is supported through the ongoing transformation initiatives. In addition, PREPA has implemented minor changes to its medical benefits plans for active and retired employees, resulting in substantial cost savings while maintaining competitive coverage relative to market norms.

Savings on Fuel and Other Supplies. When I started working at PREPA, there was no process to collaboratively develop a forecast and plan in connection with inventory purchasing, generation and dispatch. This led to increased fuel inventory levels and millions committed in locations where, at times, fuel would be held but would not be used for an extended period of time. This would also cause increased fuel purchases and higher inventory levels. It also made PREPA an unreliable customer and harder to work with from a fuel supplier perspective. PREPA has worked to improve fuel inventory controls and fuel costs by adopting and implementing industry standards to forecast its fuel requirements uniformly, better synchronize generation, dispatch, and fuel scheduling to deliver power at the lowest possible cost. PREPA has also implemented an integrated process that measures and tracks fuel

inventory, improves inventory controls and optimizes inventory levels with respect to all inventory. In particular, we implemented a sales and operations planning process that synchronizes the fuel planning process and has delivered reduction in working capital levels of approximately $36 million through the optimization of inventory levels. This process also enabled the identification and capture of dispatch opportunities particularly for dual fuel units and optional capacities in high commodity price fluctuations. This resulted in annualized savings of approximately $23 million.

In addition, we have implemented a request for proposals ("RFP") process and negotiated with fuel suppliers to secure more favorable fuel purchase terms. We have worked to obtain a contract with a new fuel supplier that on an annualized basis is scheduled to deliver approximately $30 million in savings from negotiated fixed price differentials. It also increased the available credit terms from 30 to 62 days and increased the available credit amounts from $137 million to $250 million. This provided PREPA with a one-time liquidity gain of $50 million and has replaced the need for revolving fuel line credit agreements. PREPA has also obtained an increase in credit terms with the diesel supplier of $15 million which also translated to a one time liquidity gain in the same amount. Additionally, we supported PREPA in negotiating an extension of the natural gas supply contract for Costa Sur that included a combination of index pricing mechanism that allows for a natural hedge against each index, thereby delivering lower and more stable fuel costs. At the time the contract was negotiated, the forecasted savings were approximately $33 million per year, with a 10% reduction in the minimum quantity that needs to be purchased, giving more flexibility to PREPA on the use and purchase of natural gas.

PREPA will implement RFPs, and introduce competitive pricing, for other supply categories – including electrical distribution equipment, maintenance repair and operations parts, business essentials, structures, meters, and fleet parts. Once implemented, this improvement is projected to generate additional recurring savings of approximately $25 million annually, depending on the spend level.

Reform of Maintenance Practices. PREPA's aging generation fleet has been maintained on a reactive basis for years. This practice was exacerbated by the mass retirements of vital operational experienced engineers in 2014, in part triggered by the enactment of Act 66-2014 (the "Government of the Commonwealth of Puerto Rico Special Fiscal and Operational Sustainability Act"). This has led to a significant increase in the forced outage frequency, further complicated by having several important units out since 2015. Early this year, we started a program to reduce the frequency and severity of forced outages in the generation area. The main focus has been root cause analysis and to move from reactive to proactive maintenance practices. To that end, PREPA has recently hired 23 engineers who are being trained in the different units and will help staff the preventive maintenance roles at each plant. Of course, it takes time to start to notice effects of any preventive maintenance, particularly in dated power plants and an under invested network. The initiatives related to decrease in forced outages are estimated to deliver over $50 million in cost savings per year. This is accomplished by optimal dispatch and the flexibility to dispatch the less costly unit versus the only units that are available.

Procurement Savings. We have spent a significant amount of time improving processes and finding cost takeout opportunities across PREPA's operations and infrastructure directorate. We implemented cross-directorate coordination procedures and procurement controls to ensure an efficient management of inventory and avoid excess levels of inventory. We have

also conducted multiple RFPs aimed at reducing the prices that PREPA pays for its goods and services and increasing the quality and effectiveness of those services. Through these processes, PREPA's workforce will soon be supported by third-party professionals in the areas of call center operations, and vehicle fleet maintenance and repair.

We assessed the vehicle fleet, availability maintenance and deployment issues. We then worked with PREPA to develop and execute a vehicle fleet rejuvenation plan that calls for approximately $80 million of investment in new vehicles over the next five years, the elimination of approximately 900 old and costly vehicles from the fleet, the hiring of a modest number of mechanics, and the contracting of a third-party vehicle maintenance and repair management service provider to improve procurement lead times and supplement the existing mechanic corps. This effort will result in a safer, less costly to maintain and more reliable fleet.

Energy Theft. Another critical area of enhanced focus for my team has been addressing the pervasive theft of energy in Puerto Rico, which costs above $180 million annually. Our team has worked collaboratively with PREPA's senior management to achieve a reduction in theft of energy. Initiatives in this area include (i) simplification of field investigation and administrative management of theft cases, (ii) implementation of a system of weekly roll-out performance metrics to increase visibility and accountability across the organization, (iii) recruitment and training of additional staff for the field investigation, case management and legal teams and (iv) implementation of an entirely new, highly sophisticated energy theft identification system.

We have developed for PREPA a new software application that uses complex algorithms and "machine learning" capabilities to extract, process and analyze data from

PREPA's billing, metering and cartographic systems in order to identify potential cases of energy theft across PREPA's customer base. The new system organizes the raw data already existing in PREPA's applications into more than 150 variables, which are correlated with identifiable patterns of energy theft to create qualified and ranked leads that are fed to PREPA's field investigation teams. PREPA's case administration system was also modified to make it easy to use, ensure adoption by supervisors and administrative personnel and increase productivity of field resources, as leads are now organized by route, forms are automated and field investigators carry with them all relevant information about every case when they go on their daily routes. The new system roll-out includes extensive training to employees. The new theft system is being transitioned to PREPA, with complete documentation and training, for PREPA to own, use and maintain after AlixPartners leaves the project.

As a result of the above actions, cash collections from theft cases have increased by more than 50% over the last 2 years, to almost $20 million per year, while non-technical loss has decreased by more than 10%, creating more than $24 million in annual savings.

Progress on Accounts Receivable and Collections Processes. With our assistance, PREPA has made great strides in its accounts receivable and collections processes with respect to government and private customers alike. We have directly engaged with the central Commonwealth government and its agencies to set appropriate Fiscal Year 2016 budgets and has implemented payment plans for past due government accounts. Given the current financial situation within the Commonwealth, these efforts have become even more important. To address private customers' receivables, PREPA has launched successful collection programs targeting specific segments such as wholesale customers and public housing. In addition, PREPA has retained specialized third party collection agencies to pursue uncollected balances in

inactive accounts. As a result of these programs, past due accounts receivable from government customers have decreased by approximately $30 million over the last 12 months, while past due accounts receivable from general customers have decreased by $70 million approximately over the same period.

External collection agencies are bringing $400,000 a month in cash from older delinquent accounts that were not collected and remained dormant before our arrival.

In order to ensure that all the above improvements are sustainable, PREPA's customer service is currently being reorganized to a process-centric model, where billing and collections are being consolidated into efficient, centralized units, while the commercial offices will focus on customer care and on promoting increased use of low-cost electronic means for routine transactions.

Creation of the Program Management Office. Another key work stream has been the creation of a Program Management Office (the "PMO"). The PMO is used to track more than 70 projects across all PREPA directorates, with special focus on 20 projects critical to executing a new vision for PREPA. The PMO ensures these 20 critical projects have the visibility, accountability and prompt escalation and decision making needed for a successful execution. The PMO tracks timelines, progress against key milestones, budgets, resource allocation, project risks and open items weekly, with a monthly update provided in the Executive Director's staff meeting. AlixPartners developed the process, templates and team structure, and set-up the PMO six months ago, training five PREPA project managers in the process. After the PMO has been ingrained in PREPA's day-to-day management practices, it will be handed over to PREPA to maintain for the long-term.

Employee Safety. We are also focusing on the safety of employees, which should be at the heart of every well-run business. In the past 10 years, PREPA has had 15 fatalities and approximately 14,000 safety incidents. This is not acceptable. Its incident rate is higher than that of its industry peers. On our recommendation, in September 2014, PREPA ran a competitive RFP process and selected and engaged industry leader DuPont to conduct an analysis of safety practices and procedures. DuPont was asked to evaluate our current safety environment and then to make recommendations for improvement, with the goal of ultimately attaining best practices across the utility. The DuPont program focuses on both short and long term improvement, reviews current policies and compliance and makes immediate recommendations such as remedial training, personal protective gear and safety equipment and long term capital investment requirements. PREPA is currently implementing the short- and long-term recommendations made by DuPont and tracking its performance in those areas. During 2015, PREPA reduced its incident rate by 15%, which represents a productive first step, but falls short of our ultimate goal.

Reform of Organizational Culture. PREPA is also working to improve its organizational culture and instill a focus on excellence. Many of PREPA's employees have embraced this effort and the board and management have also committed to these critical changes. Work is underway to introduce carefully selected key performance indicators ("KPIs") to heighten the visibility of key priorities within the organization and focus process improvements where they will have the greatest possible impact. PREPA's workforce and organizational structure is being evaluated to reduce overlapping roles, streamline cross-divisional work and clarify job descriptions. PREPA is also undertaking succession planning and training for key positions to address potential retirements and other retention pressures.

Information Technology. Our team performed an assessment of PREPA's information technology operations in August 2015 and, as a result, developed an "IT Improvement Plan" to address five major areas that required improvement: (i) information security, including network, application and data security; (ii) technical infrastructure, to mitigate the risks in the current data center facility; (iii) CC&B (PREPA's billing system), to increase availability and performance for users serving PREPA's customers and facilitate the implementation of new rates; (iv) IT operational processes, to increase responsiveness to IT issues and decrease time to identify and resolve problems; (v) IT function, to better align resources and skills to IT and customer needs.

The AlixPartners team has been working to implement the IT Improvement Plan. So far, significant progress has been made: (i) new network security equipment has been implemented; (ii) new application access policies have been rolled-out throughout the organization; (iii) data security strengthening actions are being implemented; (iv) PREPA is moving its critical applications to the new PREPA.Net co-location facility, with the first phase of this project expected to be completed by December 31, 2016; (v) PREPA is migrating several critical applications (e.g., its Corporate e-mail) to cloud services, following broadly accepted industry trends; (vi) provisional rates were implemented in CC&B in 30 days, with no disruptions or issues to customer billing; and (vii) other improvements are being made to CC&B in order to improve the quality of the software, including a more robust testing and quality assurance environment, new functionality to better track customer payments, a new monitoring software to proactively identify IT problems, as well as a new Network Operations Center (NOC), with corresponding training of PREPA's personnel.

As noted above, another one of our key tasks has been to negotiate a Restructuring Support Agreement with PREPA's financial creditors. The RSA provides significant long-term savings for PREPA, which ultimately reduce energy costs for customers. Along with a principal reduction of over $800 million, PREPA's restructuring maximizes debt service savings – approximately $1.13 billion over 5 years and $1.66 billion over 10 years, based on projections included in recent Energy Commission filings – while providing near-term relief to facilitate needed infrastructure improvements.

The key economic terms of the RSA include the following:

Bondholder Agreement. An ad hoc group of bondholders representing more than a majority of the outstanding uninsured bonds have agreed to exchange their bonds for new securitization bonds at 85% of the current face amount. These new securitization bonds will be interest-only bonds for the first five years, meaning that no principal will be paid during the first five years. In addition, the interest rate on the new securitization bonds will be lower than the current rate on PREPA's existing debt based on a pricing grid.

Fuel Line Agreement. PREPA's fuel line credit lenders (which no longer provide fuel line credit) have agreed to participate in the restructuring by converting their existing lines into either (i) term loans, with a fixed interest rate that is lower than the annual interest rate PREPA is currently paying on its fuel line credit, to be repaid over a period of six years, or (ii) securitization bonds to be issued on the same general terms as those issued and exchanged for the uninsured bonds.

Bond Insurers. To finance the restructuring transactions, PREPA's bond insurers have agreed to issue up to approximately $460 million in surety insurance policies that will support a portion of the debt service reserve fund for the securitization bonds.

To allow PREPA to implement the transactions contemplated by the RSA, the Legislative Assembly passed, and the Governor signed, the PREPA Revitalization Act in February 2016. Most notably, this new law authorized the (i) issuance of the new securitization bonds, backed by a Transition Charge and Commonwealth non-impairment pledge, (ii) implementation of governance reforms to depoliticize PREPA, with a goal of allowing PREPA to function like a modern utility, supported by a board and a professional management team that will survive beyond the election cycle and that can implement long-term operational savings, infrastructure investment and reforms, and (iii) the ability to conduct a transparent RFP process to allow PREPA to solicit competitive bids from third-party investors who will have the opportunity to invest in PREPA's infrastructure.

Completion of the RSA transactions remain subject to various conditions and contingencies. For example, the RSA requires the new securitization bonds to receive an investment grade rating from a recognized rating agency. Although the restructuring transactions are designed to maximize the new securitization bonds' rating, achievement of an investment grade rating will likely depend at least in part on the rating agencies' views of the overall financial situation of Puerto Rico. PREPA has begun informal conversations with rating agencies but has not yet begun the formal ratings process. In addition, the new securitization bonds must be validated by a court through a formal expedited legal process. The legal process, known as the validation process, is currently underway in the Court of First Instance of San Juan. The first oral argument has been scheduled for November 15, 2016. Other contingencies include

the negotiation of definitive documentation and satisfaction of various restructuring milestones, including the launching of an RFP process for new generation infrastructure. In its current form, the RSA will expire on December 15, 2016 if the restructuring has not been consummated by that time. Several of the RSA milestones will not likely be met by December 15, 2016. As a result, we do not anticipate that PREPA's legacy bonds will be exchanged into new securitization bonds by such date and we are beginning the process of negotiating RSA extensions with PREPA's creditors.

On June 30, 2016, President Obama signed into law the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA"), which creates a federal restructuring regime for the Commonwealth of Puerto Rico and its instrumentalities, subject to the authority of an Oversight Board. On September 30, 2016, the Oversight Board designated PREPA as a "Covered Territorial Entity" for purposes of PROMESA, which means that the PREPA restructuring will need to be implemented in accordance with the requirements set forth in PROMESA and subject to the control of the Oversight Board.

The PREPA advisory team is in the process of analyzing and evaluating the different alternatives available to PREPA under PROMESA to implement its restructuring plan, which may involve, among other things, the commencement of a restructuring process under Title III or Title VI of PROMESA. We are also assessing the options available to us under Title V of PROMESA, which addresses accelerated local permitting, in order to determine if there is an opportunity to accelerate our timeline for much needed investment in our facilities.

Capital Investment Plan

Through the implementation plan contemplated under the RSA, PREPA developed a comprehensive vision for a new, modern and self-sustaining PREPA. This is necessary because PREPA's outdated and inefficient generation fleet and transmission system have contributed to rising costs and decreasing reliability to customers over time.

PREPA's core infrastructure is outdated, and this drives high forced outage rates, poor efficiency, low reliability and high costs. PREPA's generation system is under extreme stress. Generating units are old, and historically PREPA has not made the investments necessary to maintain their reliable service. For example, PREPA's median plant age is 44 years, compared to a U.S. industry average of 18 years. Approximately 80% of PREPA's generating fleet is more than 25 years old, and PREPA's oldest thermal unit is 56 years old.

Compounding this problem is that PREPA's transmission system needs to be repaired and modernized. Unless this occurs, it will be difficult to accommodate unplanned unit outages and to achieve a reliable and sustainable operating environment.

PREPA's energy mix is a legacy of the past. Currently, 65% of total electricity generation in Puerto Rico is powered by fuel oil and coal, with 32% powered by natural gas and only 3% from renewable sources. PREPA's heavy reliance on fuel oil is perhaps most problematic, as it exposes the utility – and, correspondingly, its customers – to significant price volatility while also creating environmental compliance challenges under federal Mercury and Air Toxics Standards ("MATS") and other regulations.

To address these issues and facilitate its transformation, PREPA has developed a comprehensive long-term capital plan, composed of $2.4 billion in new investment—funded through a combination of sources including incremental revenue collections, cash saved through

a negotiated settlement with the creditors, cash resources generated through the improvement initiatives or through a new public-private partnership investments (the "Capital Plan").

The Capital Plan is driven by PREPA's integrated resource plan (as amended or modified, the "IRP"), which seeks to modernize PREPA's infrastructure through the replacement of the aging generating fleet with a combination of new efficient and highly flexible generation, largely based on the use of natural gas and the maximization of renewable integration, by eliminating inflexibilities in PREPA's fleet. PREPA filed the IRP with the Energy Commission in July 2015 as required under the Puerto Rico Energy Transformation and Relief Act No. 57-2014.

Following multiple hearings, on September 23, 2016, the Puerto Rico Energy Commission approved a modified IRP which included key elements of PREPA's proposed IRP to upgrade PREPA's transmission, distribution and generation systems. The modified IRP expressly did not include approval of the construction of the Aguirre Offshore Gas Port ("AOGP") and related conversion projects as proposed by PREPA. However, it does allow PREPA to continue the relevant permitting process up to a cap of $15 million. I understand that PREPA intends to seek reconsideration and clarification of certain aspects of the Energy Commission's IRP decision. PREPA is in the process of responding to the Puerto Rico Energy Commission's requests and will continue to work with the Puerto Rico Energy Commission to determine the best way to improve the efficiency of its generation system, comply with MATS and directly contribute to infrastructure development and economic growth in Puerto Rico.

Other key near-term projects in the IRP, which were approved by the Energy Commission, include the construction of new combined cycle units at PREPA's Palo Seco plant,

the repowering of the Aguirre combined cycle and the repair and installation of new transmission and distribution equipment throughout PREPA's system. PREPA intends to immediately begin executing on these elements of the modified IRP. PREPA's plan will also replace the large steam electric generating units at Aguirre and Costa Sur with new efficient and flexible combined cycle units.

Shifting to highly flexible combined cycle generation will eliminate the current restrictions on the fleet and improve PREPA's ability to integrate intermittent renewable energy sources, which are a key component of PREPA's vision for the future. Execution of the Capital Plan will also enable PREPA to comply with Federal environmental regulations and reduce reliance on fuel oil.

PREPA is also focused on renewables to further diversify energy sources in Puerto Rico while managing costs and contributing to PREPA's ongoing environmental compliance efforts. In Puerto Rico, peak usage occurs in the evening hours. The wind powered resources and the photovoltaic resources are largely coincident, with negligible outputs after sunset, and the night peak needs to be supplied by thermal generation. The entire replacement of the PREPA fleet will allow the turning on and off these units on a daily basis, to better accommodate renewables, which is something that cannot be done with the steam power generating units at Aguirre and Costa Sur, San Juan and Palo Seco.

PREPA understands the concerns expressed by the Energy Commission in its recent IRP order about the need to increase utilization of renewables. At the same time, PREPA is focused on the relatively higher cost of renewables and the difficulty of integrating renewables into PREPA's aged system. To that end, in accordance with the Energy Commission's directive,

PREPA is reviewing its existing renewable power purchase agreements for possible opportunities to renegotiate or exit these agreements.

Perhaps most importantly, now that the modified IRP has been approved, PREPA intends to pursue bids from third parties to finance and build new power generating units through an open and competitive RFP process to ensure that we are attracting the most efficient capital (public and/or private) and expertise to help us execute the plan. PREPA has already reached agreement with the Energy Commission on the terms of a joint regulation to conduct the RFP for soliciting private capital in PREPA's transformation and the enactment of such joint regulation. We are currently conducting an RFP in order to select the technical expert that will work on both the feasibility and the technical aspects of the RFP process.

Governance Reform

Another critical element of PREPA's vision for the future is governance reform. PREPA's employees and leaders are critical to ensuring that PREPA is able to execute on its capital and business plans. Governance reforms embedded in the RSA and the PREPA Revitalization Act (Act 4-2016), which was enacted by Puerto Rico's Legislative Assembly in February 2016, provide for the appointment of an independent board to promote independence and meritocracy to ensure that the changes we are implementing and planning are sustainable. Consistent with these requirements, PREPA has completed an extensive search for new independent directors with assistance from an internationally recognized search firm. Names of proposed directors have been submitted to the Governor for review and approval and will ultimately be subject to confirmation by the Puerto Rico Senate. In parallel, PREPA is working

to instill a culture of meritocracy, and as discussed above, implement concrete policies in line with that culture, including performance based reviews and measurements.

Rate and Regulatory Reform

One contributing factor to PREPA's financial situation is that its existing rate structure has not captured its operating costs and debt service. PREPA's base rates – which must cover the costs of its transmission and distribution system, the maintenance of its generation facilities, plus any capital investments needed to modernize PREPA's systems, have not changed since 1989 despite increases in costs and debt service obligations. PREPA separately collects charges intended to recover the cost of fuels and purchased power, as well as other costs that vary over time. Those charges vary as those costs vary. Thus, the average "all-in" charges fluctuate based on the cost of fuel and purchased power, and reached highs of approximately 28 cents per kilowatt hour ("kWh") in August 2014. Today, the all-in charges have fallen with oil prices to approximately 17.75 cents per kWh during August 2016, which is higher compared to the U.S. mainland (though lower than, or similar to, comparable island systems) and has a disproportionate impact on Puerto Rico residents given their income levels and other economic factors.

PREPA's restructuring plan shares the burden of closing the rate deficit amongst all of PREPA's stakeholders. Absent any operational reforms, creditor concessions or rate adjustments, the rate deficit – that is, the difference between PREPA's rates and the costs of providing service – would be between 8 cents and 11 cents per kWh. This variance is dependent on how long of a period of time the fuel line lender debt will ultimately amortize over. If is it immediately, per the current maturity, the rate deficit would be 11 cents. If it is over three years,

which is the amount of time that PREPA has requested between major rate cases, the rate deficit would be 8 cents per kWh. PREPA's operational improvements and efficiencies, in combination with the debt savings contemplated by the RSA and the proposed rate adjustment, will close the gap. To achieve that rate adjustment, PREPA has filed a request with the Puerto Rico Energy Commission to increase electricity rates by approximately 1.3 cents per kWh and adopt a modern rate structure. As part of this, PREPA will implement a new more transparent bill process to give consumers a complete and clear picture of the costs of service, and where their dollars are going. The Energy Commission has approved the rate adjustment on a temporary basis, pending its final review which is expected to be completed in the first quarter of 2017 following a public hearing process. The provisional rate was implemented in the August 2016 billing cycle.

The PREPA rate should not be confused with the Transition Charge relating to the securitization bonds to be issued in exchange for PREPA's legacy debt under the RSA transactions. The Transition Charge, which totals approximately 3.1 cents per kWh, is a non-bypassable charge that will service the new securitization bonds. These bonds are not new debt, but replacement debt for the debt previously issued at PREPA. Absent the contemplated restructuring and in order to execute on its much needed capital plan, PREPA would be obligated to increase rates in amount above the contemplated Transition Charge because it would not get the benefit of the savings and liquidity relief provided by the 15% discount, the five-year principal holiday, the long term amortization of the fuel line debt and the fixed, lower interest rates on both the securitization and the fuel line debt.

Conclusion

PREPA will continue to work diligently and efficiently with all of its stakeholders and relevant authorities to implement its transformation process. A successful completion of this process will allow PREPA to provide a reliable and affordable service for the Commonwealth citizens and spur economic growth as PREPA is able to invest in and develop new infrastructure projects across Puerto Rico. PREPA remains focused on effectuating an operational and financial restructuring, which will achieve tangible results for the citizens of Puerto Rico and foster economic growth.

I would like to thank the Commission for giving me the opportunity to participate in this hearing and to update you on PREPA's transformation.